



**Date:** May 7, 2013

**To:** Thomas J. Bonfield, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Director  
Department of Community Development  
**Subject:** Rebuild Durham, Inc. Loan Modification

### **Executive Summary**

In June of 2012, City Council authorized the expenditure of \$366,322.85 in housing bond program income in the form of reimbursement to the U.S. Department of Housing and Urban Development of a result of non-compliance with the requirements of the Home Investment Partnership (HOME) program by Rebuild Durham, Inc. (RDI). The Department consulted with the City Attorney's office and outside counsel to develop loan modifications and related documents necessary to substitute non-federal funds. The proposed loan modifications will defer the payment of the remaining City of Durham loan balances on twelve of the thirteen RDI properties until the future sale of each property. For the thirteenth property, loan cancellation documents have been prepared allowing for the transfer of the deed to the City of Durham. The thirteenth property is 110 Chestnut Street which is located within the Southside project area.

### **Recommendation**

The Department of Community Development (DCD) recommends that City Council authorize the City Manager to execute loan modifications and related documents for twelve RDI properties. The loan modifications defer payment of the remaining loan balances until future sale of the properties. The DCD also recommends that City Council authorize the City Manager to accept the deed transferring fee simple ownership of 110 Chestnut Street to the City and execute a Certificate of Satisfaction, thereby cancelling the City's loan.

### **Background**

On August 3, 2000 the City entered into a loan agreement with RDI that provided for up to \$410,000.00 for the purchase and rehabilitation of twelve (12) single family houses to be made available to renters whose income was at or below 60% of the area median income, per HOME regulations. On August 15, 2003, the loan agreement was amended to provide for an additional \$350,000.00 and increased the number of single family houses to be purchased and rehabbed to thirteen (13). The expiration date of that contract was extended to August 15, 2005. RDI has subsequently purchased and rehabbed all 13 houses.

Eleven of the thirteen RDI properties have first mortgages held by SunTrust. Because of a high vacancy rate, and substantial deferred property maintenance within its portfolio of properties, RDI secured a loan modification from SunTrust to set aside 60% of their outstanding first mortgage loan balance for approximately 30 years from the original note date, and reduce the interest rate to 4.5% thereby enabling RDI to become current on its

loans and to improve cash flow to make repairs to vacant units and get them re-occupied. Existing rents provide insufficient cash flow to cover repayment of the original loan balances of the SunTrust loans, operating expenses and payments on the City's loans. Therefore, RDI ceased making loan payments to the City in September 2011. The City disbursed a total of \$754,957.75 for all properties, with \$388,634.90 having been repaid, leaving a total outstanding principal balance of \$366,322.85. With the modification of the Sun Trust loans to reduce payments and by deferring the City loan payments, RDI expects sufficient cash flow over time to be able to make the necessary repairs to bring these properties into code compliance and get them re-occupied. This workout plan represents the final concession Sun Trust and the City can make to assist RDI with this effort.

### **Issues and Analysis**

RDI's original loan terms were 0% interest with a 30 year amortization, with monthly principal payments. The modified loan term will remain 0% with a lump sum payment of the remaining loan balances due upon sale of each property. RDI may continue to own any or all of these properties and further the City's goal of providing affordable rental housing units, but should they decide to sell any of these properties in the future, the entire loan balance for each property will be due and payable at that time. The properties are subject to a 15 year period of affordability which began on the date that the original certificate of occupancy was issued. The period of affordability that remains for each property will continue to be enforced by way of recording new deed restrictions which remove federal requirements and allow occupancy by tenants with incomes up to 80% of the area median income (AMI).

Since RDI ceased making loan payments to the City, it has reinvested that "savings" back into its portfolio of properties to complete needed repairs. In 2012, repairs totaling \$17,598.58 were completed and for 2013, a total of \$11,615.82 in repairs has been completed to date. Excluding the Chestnut Street property, the portfolio consists of seven occupied properties, three properties which were recently repaired and now ready for occupancy and two properties which require repairs before they can be occupied. The two latter properties are located at 1508 W. Club Blvd. and 2534 S. Alston Avenue which have a total of \$20,100.00 in estimated repair needs.

A provision of the loan modification agreement is that RDI will direct 50% of the foregone loan repayments to funding ongoing repair and replacement reserves for the ten properties without immediate repair needs and the remaining 50% into an escrow account for the future repair of the W. Club and S. Alston properties. RDI will submit annual financial statements to the City to document this agreed upon use of funds. The timeframe by which RDI must complete the required repairs is four years from the date the loan modification is executed.

The property at 110 Chestnut Street will be deeded back to the City, demolished and held for future redevelopment.

### **Alternatives**

An alternative to requiring payment of the City's loan upon sale is to allow the loan to be forgiven over the remaining loan term.

### **Financial Impact**

The loan modifications will result in an annual loss of repayment to the City of approximately \$12,804.00. If, and when the properties are sold, a total of \$308,526.10 will be repaid to the

City. The current loan balance on the Chestnut Street property is \$57,796.75, which will be cancelled when the property is deeded to the City.

**SDBE Summary**

Not applicable to this item.

**Attachments**

Amendment to Deeds of Trust and CHDO Loan Agreement  
Certificate of Satisfaction for 110 Chestnut Street  
Promissory Note (Sample)  
Special Warranty Deed